

Message Text

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ACTION EB-11

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INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 L-03

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TAGS: ECON,KS

SUBJECT: KOREA'S BOOM AT MID-YEAR

REFS: A. SEOUL 3024

B. SEOUL 4605

C. CERP

SUMMARY:

ON THE WHOLE KOREAN ECONOMIC ACTIVITY INCREASED RAPIDLY
DURING FIRST SIX MONTHS OF 1973 AND SYMPTOMS OF OVERHEATING
ARE NOW MORE EVIDENT. DEMAND INCREASES RESULTING FROM STRONG
EXPORT PERFORMANCE AND GOVERNMENT'S DESIRE NOT PUT BRAKES
ON AS COUNTRY EMERGED FROM 1971-1972 SLOWDOWN HAVE NOW LED
TO A SITUATION WHERE SUPPLY CONSTRAINTS ARE DEVELOPING, WHICH
WILL BE EXACERBATED BY U.S. EXPORT EMBARGOES. WHILE PRICE
INCREASES HAVE BEEN LIMITED SO FAR, GOVERNMENT NOW REALIZES
KOREA CANNOT ESCAPE ITS SHARE OF INTERNATIONAL INFLATION AND
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THAT THREE PERCENT PRICE GOAL WILL BE EXCEEDED. REF B.

REPORTS BOP OUTLOOK. END SUMMARY.

1. GENERAL ECONOMY: ALTHOUGH FULL FIRST HALF DATA ARE NOT YET AVAILABLE THERE IS NO DOUBT THAT KOREAN ECONOMY IS NOW IN MIDST OF BOOM SPARKED IN PART BY ACTIVE U.S. AND JAPANESE ECONOMIC PERFORMANCE. EXPORTS AND INDUSTRIAL PRODUCTION ARE WELL ABOVE PREVIOUS LEVELS. IMPORT INCREASES LIKEWISE ARE FAR IN EXCESS OF THOSE ANTICIPATED PARTLY DUE TO HIGHER PRICES CHARGED BY FOREIGN SELLERS. CONSTRUCTION HAS RECOVERED FROM LAST YEAR'S SLUMP, WITH TOTAL AREA OF BUILDING PERMITS ISSUED WELL ABOVE LEVEL OF 1970 FIRST FIVE MONTHS FOR FIRST TIME SINCE THEN. A 260 PERCENT INCREASE OVER 1972 JANUARY-MAY IN INDUSTRIAL CONSTRUCTION PERMITS IS EVIDENCE OF INCREASING INVESTMENT DEMAND IN RESPONSE TO IMPROVING CONDITIONS AND READY AVAILABILITY OF CREDIT.

2. OUTPUT. SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION INDEX FOR JANUARY-MAY WAS UP 31.1 PERCENT OVER SAME PERIOD 1972, AND 12.2 PERCENT SINCE END OF 1972. INVENTORIES ARE DOWN 3.1 PERCENT FROM SAME PERIOD OK 1972. CONSTRUCTION STARTS AND OVERSEAS ORDERS HAVE CONTRIBUTED TO 150 PERCENT INCREASE IN PLYWOOD PRODUCTION, NEAR DOUBLING OF STEEL OUTPUT AND ONE THIRD RISE IN CEMENT PRODUCTION COMPARED TO SAME PERIOD 1972. TEXTILE PRODUCTION HAS ALMOST DOUBLED. AS 1972 SECOND QUARTER WAS QUITE ACTIVE, THESE AND OTHER INDUSTRIAL PRODUCTION GAINS MAY BE REGARDED AS SIGNIFICANT IMPROVEMENT. AGRICULTURAL PRODUCTION SO FAR IS SLIGHTLY ABOVE LAST YEAR. ALTHOUGH NO DATA ON FIRST OR SECOND QUARTER GNP HAVE BEEN PUBLISHED, THE OVERALL RESOURCES BUDGET ESTIMATE OF REAL GNP GROWTH FOR THE YEAR HAS BEEN REVISED UPWARD TO 11 PERCENT. SUPPLY CONSTRAINTS MAY HOLD SECOND HALF PRODUCTION OF SOME ITEMS DOWN, ESPECIALLY IF EFFECTS OF U.S. EMBARGOES ARE NOT OFFSET.

3. FOREIGN TRADE. SYMPTOMATIC OF THE BOOM, EXPORTS JANUARY-MAY TOTALED \$1,075 MILLION, UP 106 PERCENT WHILE IMPORTS AMOUNTED TO \$1,553 MILLION, UP 63 PERCENT. NET INVISIBLE RECEIPTS, DUE TO LARGE TOURIST INFLOW, GREW BY 240 PERCENT DESPITE DECLINE IN VIETNAM EARNINGS. SEE REF B. FOR DETAILS.

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4. PRICES: IN VIEW OF LARGE INCREASES IN PRICES OF IMPORTED GOODS- GRAINS, TIMBER, SCRAP STEEL, CRUDE OIL - HOLDING OF WHOLESALE PRICE INDEX INCREASE TO 2.8 PERCENT FOR FIRST HALF WAS EXCELLENT PERFORMANCE UNDER TRYING CONDITIONS. IN RECENT WEEKS IT HAS BEEN CLEAR THAT WHILE GOVERNMENT IS NOT READY TO FORMALLY ABANDON THREE PERCENT WPI ANNUAL INCREASE AS TARGET, IT DOES NOT EXPECT ACHIEVE THIS GOAL. AS RESULT SCARCITIES DUE PRICE/SUPPLY RELATIONSHIPS FOLLOWING ANNOUNCE-

MENT U.S. EXPORT EMGARGOES, EPB FEW DAYS AGO AUTHORIZED SIGNIFICANT PRICE INCREASES FOR STEEL REINFORCING BARS, LAUNDRY SOAP, INSTANT NOODLES, VEGETABLE OILS AND MIXED ANIMAL FEEDS. ALLOCATION SYSTEM FOR REBARS HAS BEEN IMPOSED. THESE PRICE INCREASES WILL HAVE TWO PERCENT EFFECT ON WPI. ACCORDING TO EPB, OR NEARLY ONE THIRD OF INCREASE DURING WHOLE FIRST HALF. TALLOW AND SOYBEAN SCARCITIES, WITH INVENTORIES ALLEGEDLY DUE EXPIRE BY END AUGUST HAVE CONTRIBUTED TO HOARDING. AS THEY AFFECT DAILY LIVING HABITS, THESE SHORTAGES PUT A POLITICAL DIMENSION TO PLANNERS' PROBLEMS. A SPECIAL INTER-MINISTERIAL RESOURCES COMMISSION HAS BEEN ESTABLISHED AS TASK FORCE TO OVERCOME SHORT SUPPLY PROBLEM AND FORESEE FUTURE CASES AT EARLIER STAGE OF THEIR DEVELOPMENT.

5. MONETARY AND FISCAL: DOMESTIC CREDIT ROSE TO WON 1753.5 BILLION ON JUNE 30, AN INCREASE OF 15.3 PERCENT DURING FIRST SIX MONTHS AND ABOUT WON 50 BILLION OVER IMF CEILING. SEPTEL FOLLOWS ON ROKG PLANS. SAVINGS DEPOSITS ROSE 17.4 PERCENT OVER END OF 1972, AND INDICATION THAT THE LOWERING OF INTEREST RATES ON SAVINGS LAST AUGUST DID NOT ADVERSELY AFFECT SAVING PROPENSITIES. DISHONRED BILL RATE IS SIGNIFICANTLY LOWER THAN IN PREVIOUS YEARS. BUDGET PERFORMANCE HAS BEEN FAIRLY GOOD, ALTHOUGH WON 10.4 GENERAL BUDGET SURPLUS ON JUNE 30 WAS WAS OFFSET BY LARGE GRAIN MANAGEMENT FUND DEFICIT, CAUSING TOTAL FISCAL SECTOR DEFICIT OF WON 24.7 BILLION AN GOVERNMENT BORROWING FROM BANKS OF WON 41.9 BILLION. ON THE WHOLE, MONETARY AND FISCAL POLICY HAVE ENCOURAGED, RATHER THAN DISCOURAGED, THE BOOM.
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